

Nassau County Comptroller's Audit Advisory Committee

Interim Activities Report

July 2004

Background:

The Nassau County Comptroller's Audit Advisory Committee was established to assist in the monitoring of Nassau County's finances, and to advise the Comptroller regarding the county's financial statements and audits as to compliance with generally accepted accounting principles and auditing standards. It is committed to assisting the county in increasing transparency and financial integrity in County Government.

The committee assists in monitoring the independent audit of the County's financial statements, from the selection of the independent auditor to providing advice on the resolution of audit findings. The Committee examines the appropriateness of the outside audit's scope; the preparation of the annual financial statements; the audit results; and the assessment of the adequacy of internal controls by both the administration and the auditors. Similarly, the Committee will review and comment on the Comptroller's internal audit plan, audits prepared pursuant to that plan, agency responses, and county control directives and procedures. It will periodically participate in special projects, and review special district audits filed annually with the Comptroller.

Committee Composition:

The Comptroller's Audit Advisory Committee is composed of seven members:

- County Executive or designee
- County Comptroller or designee
- Five experienced County community/business/financial leaders selected by the Comptroller who are independent of the County and local governments. One of the five non-County members will be chosen to serve as committee chair.

Current members of the Audit Advisory Committee are:

H. Richard Grafer: A retired Partner and Managing Director of Arthur Andersen LLP, is sole owner and Managing Member of Pathway Investments, LLC, a venture capital firm investing in companies with a social mission.

Manuel Mosquera: Nassau County's Deputy Comptroller for Audits and Special Projects (serving as designee of the County Comptroller).

Ralph S. Polimeni: Dean of the Frank G. Zarb School of Business at Hofstra University, where he also holds the Chaykin Endowed Chair in Accounting. Mr. Polimeni is currently the Chairperson of the Committee.

Edward S. Scott: Deputy General Counsel and Vice President of Development and Acquisitions for UrbanAmerica, LP.

Terence E. Smolev: Partner in charge of tax, trusts and estates with the law firm of Forchelli, Curto, Schwartz, Mineo, Carlino & Cohen, LLP. Mr. Smolev is currently the Vice Chairperson of the Committee.

Robert Andrew Wild: Chairman and Managing Partner of Garfunkel, Wild & Travis, P.C., a law firm specializing in healthcare.

Martha Herrera-Wong: Deputy Budget Director in the Nassau County Office of Management and Budget (serving as designee of the County Executive).

In addition, while not a member of the Committee, a partner of Deloitte & Touche, the County's current outside audit firm, participates in every Committee meeting.

Summary of Activities:

- The Audit Advisory Committee held its first official meeting on October 7, 2003. County Executive Tom Suozzi and Comptroller Howard Weitzman welcomed the members. The County Executive described the current organizational structure of Nassau County government. The Comptroller discussed the County's past fiscal problems, measures the current administration has undertaken to address those problems, and the challenges still facing the County. He also described the responsibilities of the Comptroller's Office. Two representatives of Deloitte & Touche, the County's current outside audit firm, also were in attendance. The Committee discussed operational issues and discussed the adoption of a formal mission statement. (The Mission Statement, *attached*, was subsequently adopted).
- During subsequent meetings, the Committee focused on understanding the financial statements, position and activities of the County as well as reviewing the previous five years of audited financial statements and Deloitte & Touche management letters. The Committee concluded that although the County's financial statements are now receiving unqualified auditor's opinions, the County should continue to address among other matters, internal control weaknesses repeatedly noted in the priory years' management letters.
- The Committee observed that the County's 2002 financial statements resulted in an unqualified opinion from Deloitte & Touche for the first time in several years.

- The Committee has met with representatives of Deloitte & Touche on several occasions to discuss various matters concerning its review of the County's finances, including the audit firm's materiality guidelines and the County's internal controls.
- Comptroller Weitzman attends the meetings and has updated the Committee on two issues of concern: financial practices in the County's Economic Development Vertical (EDV), and the financially deteriorating condition of the Nassau Health Care Corporation (NHCC) and its potential impact on the County. The Comptroller's representative subsequently provided the Committee with the Comptroller's audit report of the EDV, as well as the administration's internal audit report, and a report prepared by an outside consultant to the County on NHCC.
- Although the Committee originally was to meet quarterly, because of the serious financial issues facing the County the Committee concluded it should meet every other month. It also decided to create sub-committees to focus in greater detail on specific issues. To date, the following sub-committees have been formed:
 - *Economic Development*: comprised of Richard Grafer and Martha Wong, to explore corrective actions the County has implemented and should implement, specific to EDV as well as County-wide, in response to the various EDV audit reports.
 - *NHCC*: comprised of Terence Smolev and Robert Wild, to review NHCC's financial relationship/impact on the County and the outside consultant's findings.
 - *County Financial System and Processes*: comprised of Richard Grafer and Martha Wong, to develop a better understanding of the County's accounting procedures and internal controls.
 - *Interim Report*: comprised of Manuel Mosquera, Ralph Polimeni and Robert Wild, to prepare a report summarizing the Committee's activities to date.
- Sub-Committee Activities:
 - *The EDV sub-committee* met with the Deputy County Executives for Budget and Finance and for Compliance (a position created in response to the management problems that surfaced in the economic development vertical) to discuss the administration's response to concerns about the management of the EDV. The Deputy County Executives informed the sub-committee that:
 - The Administration plans to hire five accounting firms to assist the Deputy County Executive for Compliance document accounting procedures and internal controls throughout the County, a prelude to comprehensively evaluating their quality and a necessary element in assuring continuity. It created a senior operations position within the EDV to ensure that the vertical adheres to

proper protocols, and to coordinate the activities of the various non-County entities within the vertical. (The EDV consists of County-controlled units as well as separate legal entities outside the County's direct control.)

- The County is preparing contracts between it and the non-County controlled units within the EDV to define clearly all operating relationships.
- Procurement policies are now in place for all entities within the vertical. Timekeeping practices have been revamped not only to track employee time but to charge that time to specific projects/grants.
- The Administration expects that by early fall, all of the basic controls should be in place; a business plan will follow and the compliance office should be fully functional.

- *The NHCC sub-committee* met with senior members of the Administration, the Comptroller and the County's NHCC consultant, George Kalkines of Manatt, Phelps & Phillips, to understand the potential impact of NHCC on the County should NHCC be unable to meet its financial obligations. Mr. Kalkines had previously provided the County with a report that reviewed, and proposed changes to, the governance, management, finances and operations of NHCC. He is currently providing advice as to the implementation of the proposed changes. The sub-committee was informed that:

- NHCC's financial condition has continued to deteriorate. As the County had expected, but contrary to NHCC's projection that it would break even in 2004, NHCC is currently losing approximately \$1.5 million per month.
- NHCC's financial condition, including its cash position, is being monitored closely by the Administration, the consultant and the Comptroller. The County consultant is monitoring NHCC's preparation of monthly cash basis forecasts and is provided copies of the Comptroller's Office monthly NHCC cash reviews.
- NHCC personnel are discussing with the County consultant the implementation of certain of the recommendations outlined in his report. State legislation is required, however, to implement his recommendations concerning changes in NHCC's governance.
- If NHCC's financial situation were to become so grave that the County has to assume NHCC debt obligations, the County would not face an acceleration of the entire indebtedness but could assume NHCC's periodic debt obligations. An assumption of NHCC debt obligations would be unlikely to have a material adverse impact on the County's financial condition but it could impact the County's ability to carry out its multi-year plan.
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- *The County Financial System and Processes sub-committee* has met with senior Comptroller's Office officials to develop a better understanding of existing accounting procedures and internal controls throughout the County, particularly those related to expenditure approval and payment. Additional meetings may be held before the sub-committee prepares a full report.
 - *The Interim Report sub-committee* is charged with producing this report.
- The Chairperson requested that both subcommittees conduct follow-up reviews and report back to the full committee by October of this year.
- The Committee is generally encouraged by many of the positive initiatives and corrective measures undertaken to date by the County. More, however, remains to be done. During one Committee session, Committee members asked Comptroller's Office officials to rate the areas of concern in order of magnitude. Their response indicated the following areas of particular concern:
- Tax certiorari/refund process (especially as the County shifts from bonding such refunds to paying them out of operating funds)
 - Nassau Healthcare Corporation (discussed above)
 - Mandated expenses (i.e., those costs over which the County has no control)
 - Fringe benefits

The Committee expects to explore these matters in future meetings.

- Another area of concern to the Committee and raised by the County's outside auditor is staffing deficiencies, and the impact of those deficiencies on performance, within the Treasurer's Office. During the May Committee meeting, both the Deputy County Executive for Budget & Finance and the County Treasurer stated that they are addressing these issues. They noted that they are implementing an automated debt management system and are attempting to upgrade personnel, as opportunities permit.
- Finally, the Committee is concerned that many of the County's accounting procedures and internal controls are not documented. Therefore, the Committee encourages the County to continue on a high priority and County-wide basis the important initiatives it began in this regard as a result of the EDV problems.

Conclusion:

The challenges facing Nassau County are many and diverse. Resolution of some of these challenges are within the control of the County, while others are dependent on outside forces. Our review to date has concluded that the County is addressing the matters under its control and raising awareness of matters not within its control. Initial discussions have been positive and, as noted above, matters are slated for subsequent updates to

ensure that planned progress has indeed taken place. Our annual report will cover some of the above issues in greater detail.

Mission Statement

Nassau County Comptroller's Audit Advisory Committee

The Nassau County Comptroller's Audit Advisory Committee was established to answer the call to assist in the monitoring of Nassau County's financial integrity,. Its mission is to assist in the monitoring of the independent audit of the County's financial statements from the selection of the independent auditor to the resolution of audit findings. Specifically, the committee will assist in monitoring the following: selection of the outside, independent auditors; the appropriateness of the scope of the outside audit; the preparation of the annual financial statements; the results of the audit; and the assessment of the adequacy of internal controls by both the administration and the auditors. The Committee will have a similar responsibility to assist in monitoring the establishment of the internal audit plan and reviewing the results thereof. Periodically, it will participate in special projects; review special district audits filed annually with the Comptroller; and review audits of county agencies prepared by the Comptroller, agency responses to those reports, and county control directives and procedures. This committee will review the process that exists for providing that the county's financial statements and audits are in compliance with the pronouncements of the Government Auditing Standards Board ("GASB"). It is committed to upholding continued excellence in Nassau County Government.